United Nations E/ICEF/2005/AB/L.2

Economic and Social Council

Distr.: Limited
6 April 2005

Original: English

For action

United Nations Children's Fund
Executive Board
6-10 June 2005
Item 7 of the provisional agenda*

Internal audit activities in 2004

Summary

Since 1997, the secretariat has presented to the Executive Board an annual report on internal audit in UNICEF prepared by the Office of Internal Audit (OIA). The present report addresses OIA's activities, findings and conclusions from 2004.

* E/ICEF/2005/7.

05-29897 (E) 290405

Contents

		Paragraphs	*Page*
I.	Introduction	1–2	3
II.	Accountability and strategy of the Office of Internal Audit	3–11	3
	A. Accountabilities and oversight	3–4	3
	B. Audit strategy and approach in 2004	5–11	3
III.	Results of work undertaken in 2004	12–51	5
	A. Audit coverage	12–18	5
	B. Field offices	19–40	6
	C. Analysis of audit findings: underlying causes from field offices	41–43	10
	D. Headquarters locations and systems audits	44–49	11
	E. Summary audit report	50	12
	F. Investigation support	51	12
IV.	Implementation of audit recommendations by management	52–61	12
V.	Standards of internal control in UNICEF	62–65	14
Tables			
1.	Audit coverage, 2003 and 2004		5
2.	Audit observations by level of risk, 2003 and 2004		6
3.	Major underlying causes for field audit observations in 2004		10
4.	Summary of risk management ratings by audited area for field offices in 2004		15
5.	Summary of unsatisfactory ratings by audited area for field offices in 2003-2004		16
Annexes			
1.	Field audits completed in 2004: risk management ratings and estimated audit staff person-days per audit		17
2.	Structure and scale for audit ratings		18

I. Introduction

1. The Office of Internal Audit (OIA) completed 35 audits in 2004: 29 field audits; four headquarter audits; an audit of the termination of UNICEF activities and handover of assets related to the Oil-for-Food Programme in Iraq; and one global summary report. In its audits of headquarters divisions, OIA found the controls for the administration of travel services and the procurement of supplies and consultancy services to be satisfactory. In UNICEF country offices, controls were satisfactory for fund-raising and donor reporting; and generally satisfactory with scope for considerable improvement in finance, basic programme management, cash assistance and supply assistance. The profile of country offices' risk-management practices in 2004 was similar to the profile found in 2003, indicating that there is continuing scope for improving the programmatic and operational support from regional offices, and regional and global monitoring of the status of country offices' practices in areas of common weakness.

2. Country offices continue to address audit recommendations in a timely manner. Generally, headquarters divisions took timely action to address recommendations related to practices within their divisions and in addressing recommendations related to policy and guidance for country offices' programme and operations management. However, most of the audit recommendations issued in 2002-2003 to some headquarters divisions and to regional offices for improving support to country offices and for regional and global monitoring of country office practices remain open.

II. Accountability and strategy of the Office of Internal Audit

A. Accountabilities and oversight

3. OIA fulfilled its accountabilities (defined in E/ICEF/1997/AB/L.12) in 2004 through the implementation of an annual office management plan that defined internal improvement priorities, and an audit plan that defined priority locations and issues to be audited during the year. The annual management plan and the audit plan were reviewed by the Audit Committee at the outset of the year and progress was monitored at each meeting of the Committee throughout the year.

4. In 2004, OIA revised the Charter of Authorities and Responsibilities of the Office of Internal Audit. The charter is consistent with current international standards for the practice of internal audit and was issued by the Executive Director to all UNICEF offices (CF/EXD/2005-004).

B. Audit strategy and approach in 2004

5. The organizational structure of OIA and the job descriptions for all auditors were revised in 2004 to reflect the revised responsibilities established in OIA's Charter and to incorporate UNICEF staff competencies into the job descriptions for auditors.

6. OIA continued to develop and refine its audit guidelines to reflect changes in UNICEF guidance and performance expectations established by the relevant

divisions in the major areas covered in country office audits. In 2004, OIA secured written endorsement from the Directors of the Division of Financial and Administrative Management (DFAM), the Division of Policy and Planning (DPP) and Programme Division (PD) for the audit guideline used to assess cash assistance to Government (CAG) during country office audits. This endorsement confirmed the accuracy, adequacy, and management relevance of the expected controls and the tests that OIA applies. OIA will work with relevant directors to secure the endorsement of other audit guidelines in 2005.

7. In 2004 OIA worked with the Director and staff of the Information Technology Division (ITD) to develop a new audit guideline for assessing the information technology-related management practices in UNICEF country offices. A new audit guideline on office management in country offices, including human resources and the management of office premises and facilities, was also developed. A tool to assess UNICEF involvement, support and benefits from United Nations common services was developed and tested with the United Nations Development Group (UNDG). These new guidelines are now standard components of the country office audits to be conducted in 2005.

8. OIA maintained good cooperation with the internal audit services of other international organizations. As part of an inter-agency working group coordinated by UNDG to develop a common framework for cash transfers to implementing partners, OIA chaired the audit team which developed a new approach for maintaining assurance over the use of funds provided to partners. This new approach will potentially increase the efficiency of implementing partners and the member agencies of the UNDG Executive Committee, including UNICEF, in the administration of cash transfers. UNICEF is the host of the website of the network of United Nations audit services, the Representatives of Internal Audit Services, and in 2004 OIA developed a mechanism for members to provide content for the website to stimulate the exchange of information on audit tools and management practices.

9. To strengthen country offices' awareness of practices in other country offices, OIA introduced a series of reports on good practices and common weaknesses based on the summary reports presented to headquarters divisions and regional offices. In 2004, OIA issued reports to all representatives and senior staff of country offices on cash assistance management, and the accuracy and completeness of country office annual reports.

10. OIA continued to work with the Evaluation Office. A joint exercise was conducted in Liberia to test tools developed in the previous year for the assessment of UNICEF programmatic and operational responses in the early stages of an emergency. The methodology and tools received strong endorsement from the country office, regional office and headquarters divisions, and they will be further refined in 2005 and applied where warranted to support UNICEF emergency programme activities.

11. To strengthen the awareness by UNICEF management of audit findings, recommendations and the status of management actions, late in 2004 OIA developed a series of easy-to-read and -print reports that are updated bimonthly and are available to staff in more than 120 headquarters and regional offices.

III. Results of work undertaken in 2004

A. Audit coverage

12. OIA completed 35 audits in 2004 (see annex 1 for a list of country offices audited in 2004, a summary of the risk ratings by country, and the OIA staff time required to plan, implement and report each audit). Twenty-nine field audits and an audit of the termination of UNICEF activities and handover of assets related to the Oil-for-Food Programme in Iraq were completed. Seven headquarters audits were planned for 2004, including two that were carried over from the previous year. Of these seven audits, four were completed and issued, one was initiated and will be completed in 2005, and two were rescheduled to 2005. One of the three planned summary reports was completed and issued in 2004, another was initiated and will be issued in early 2005, and the third was rescheduled to 2005.

Table 1
Audit coverage, 2003 and 2004

	2003	*2004*
Total audits	33	35
Field office audits	30	29

13. As an assurance to UNICEF management on the quality of issued audit reports, the Director includes a Statement of Conformity to OIA Standards in each report when the standards are met. In 2004, all completed audits met OIA's demanding performance standards for planning, implementation and reporting.

14. As noted in previous annual reports, each audit report is made up of a series of "observations". An observation is comprised of: (a) a risk statement that describes why the finding is important and should be addressed; (b) a statement of the facts that were found in the audit; and (c) one or more recommendation to establish adequate control over the identified risk. This approach, which is consistent with current professional audit standards, emphasizes the risks to an office's performance.

15. In 2004, OIA issued 685 risk observations (OIA's rating scale for observations is presented in annex 2). The decrease in the number of audit observations from 2003 to 2004 is largely due to a higher number of limited-duration or limited-scope audits done in small country offices in 2004 and a refinement in the audit reporting format.

16. It is important to note that a positive observation is made when all aspects of a particular step of a work process in an audited area are found to function fully as expected. Each step can include anywhere between a few and dozens of management practices, and all must function well before a positive observation is issued. Conversely, when even one practice in a work process step is below standard, a positive observation is not made.

Table 2
Audit observations by level of risk, 2003 and 2004

	2003		*2004*	
High risk	120	(15)	87	(13)
Medium risk	656	(82)	562	(82)
Not rated (headquarters audits only)	27	(3)	36	(5)
Total, risk observations	**803**		**685**	
Positive practice observations	248			182
Per cent of total observations that are positive	24			22

17. There are no scientific criteria for determining the risk rating that is assigned to each observation. Each rating is drafted by an audit team leader and reviewed as part of the report finalization process by a senior internal auditor and the Director, OIA. As reported in 2004, a review exercise in 2003 established that there is general agreement between OIA and UNICEF management on the level of risk that OIA assigns to its observations.

18. In 2004, OIA continued the practice of ensuring that draft audit reports are always issued and discussed before an audit team leaves a field location. This is a very demanding standard but one that has contributed to an almost 100-per-cent acceptance rate for OIA's audit observations. In 2004, OIA reduced the average time for releasing final audit reports after the end of field work to 12 weeks, a 20-per-cent reduction from the 2003 average of 15 weeks. OIA considers that this average period is close to the maximum level of efficiency given staff travel schedules and other assignments. However, OIA continues to seek opportunities to further reduce the average release period.

B. Field offices

19. The standard audit scope established in 2002 was maintained in 2004, with modifications made in each audit area to reflect changes in UNICEF policies and guidance. Virtually all field audits included a detailed assessment of the core control areas of finance and programme management. Additional areas were selected for audit following a review of the office's performance data to identify areas of potentially significant risk. In 2004, most field audits included reviews of cash assistance. Individual audits also covered other areas that were relevant to the circumstances, including supply assistance in 13 offices, fund-raising and donor reporting in 11 offices, and operations related to the Private Sector Division (PSD) in five offices.

Programme management

20. Twenty-five field audits reviewed the existence and functioning of the basic programme management practices that UNICEF considers necessary to support an office in achieving its programme objectives. The audit guideline is refined annually through consultations with DPP, PD, the Division of Human Resources (DHR) and the Evaluation Office, and a version of the guideline is included in the UNICEF

Programme Policy and Procedure Manual as a self-assessment tool that country offices can use to review their own programme management practices.

21. Each audit assessed how an office defines and ensures the quality of its annual programme plans, the functioning of the office governance process to maintain attention to its programme and office priorities, management's monitoring of office performance, the functioning of programme monitoring and evaluation systems, staff capacity and training in core programme management skills, and the accuracy of the performance reports presented to headquarters and the regional offices. The audits also assessed UNICEF programming within the context of the United Nations Development Assistance Framework (UNDAF) in countries with an established UNDAF. While the existence of these management practices does not assure that an office will achieve its objectives and weak practices do not imply failure, it is reasonable to expect that offices with positive practices have a higher likelihood of overall success than those that do not.

22. The risk-management practices were found to be satisfactory in 13 (52 per cent) of the 25 audited offices, while the practices in 12 offices were rated as unsatisfactory. The level of satisfactory ratings is lower than in 2003, when 72 per cent of the audited offices were found to be satisfactory, but higher than the 44 per cent found in 2002. The principal differences between 2003 and 2004 were weaker overall practices in the areas of office governance, programme monitoring and evaluation, and staff training.

23. Nineteen offices did not meet one or more aspect of the UNICEF annual planning standards. The same number did not use office performance monitoring reports effectively. Sixteen offices had not effectively assessed the implementation and financial management capacity of their non-governmental organization (NGO) partners. Eighteen had reportable weaknesses in skills development activities for programme staff. Thirteen offices had one or more notable weaknesses in the management of the evaluation function, and 15 offices had shortcomings in their office governance mechanisms. More positively, 17 offices correctly and adequately reported on programme and operations performance in their annual reports and could substantiate the reported data.

24. The mid-term review of the medium-term strategic plan has pointed towards the need for country offices to further improve annual programme planning practices. The UNICEF Programme Policy and Procedure Manual provides updated guidance on annual programme planning to harmonize with the UNDG common guidance on the preparation of annual work plans, adopted by the Executive Committee agencies in 2004. Revised guidance on the preparation by country offices of the annual management plan was also developed in 2004 and issued in early 2005. The issues noted in the preceding paragraph were also presented in the 2002 summary audit report on basic programme management controls. (See paragraph 59 below, on actions taken to address the recommendations from that audit.)

Finance and accounts

25. A core aspect of each country office audit is the systematic review of the major controls over the commitment, expenditure and recording of UNICEF funds. The audit guideline was revised at the beginning of the year to expand the coverage of budget management and the periodic closure and reporting of accounts, while

maintaining the established coverage of controls for the assignment and exercise of financial authorities, the functioning of the contract review committee, the processing of payments, the safeguarding of financial instruments and records, the logical access to the Programme Manager System (ProMS) and management's awareness of the functioning of the finance controls.

26. In 2004, these controls were reviewed in 27 field locations; 12 offices were found to have satisfactory risk-management practices overall and 15 offices were rated as unsatisfactory. The percentage of offices found to be satisfactory in 2004 (44 per cent) is similar to the level in 2003 (48 per cent), but is well below the level found in 2002, when over 65 per cent of offices were found to have satisfactory practices.

27. The overall profile of common strengths and weaknesses was essentially the same as in 2003. The audits in 2004 found that there is generally adequate custody of offices' financial documents and records. However, as in 2003 there were inconsistencies between the financial authorities defined by the head of the office and the authorities that were actually established in ProMS in almost all audited offices, and one or more reportable risk in the processing of financial transactions was found in 23 offices. Twenty-three offices had weaknesses in their ProMS access and edit controls that affected the security of some aspects of the system. In the two areas that received expanded audit coverage in 2004, budget control and periodic closure of accounts, the audits found that 15 offices had one or more risks in their budget management practices and 17 offices had one or more observation related to account closure and reporting.

28. In 2004, DFAM initiated actions to strengthen the guidance and ProMS facilities for the establishment and maintenance of financial authorities. ITD is coordinating revisions to the ProMS access and edit controls that can be expected to strengthen the global profile of country office practices in these areas when introduced in 2005.

The management of programme inputs (cash, supplies, consultancies)

29. Following an assessment of each office's performance data and initial audit questionnaires, discussions with headquarters and regional office staff and interviews in the audited office, OIA examined one or more of the three key means through which the office plans, commits and procures programme inputs: cash assistance; supply assistance; and consultancy contracts. In 2004, 22 audits covered cash assistance, 13 audits covered supply assistance and three audits addressed consultancy management due to the relatively low value of funds expended through that input in the audited offices and the generally positive profile of management practices found in the initial risk assessment.

30. **Cash assistance**. Each audit of cash assistance in 2004 used an audit guideline that was developed with input from DFAM, DPP and PD and endorsed by the Divisions' Directors, to review the CAG planning process, the budgeting for specific activities, the disbursement process, reporting on use by counterparts and UNICEF field monitoring and assessment of counterparts' use of CAG.

31. In 2004, cash assistance was reviewed in 22 field audits; the controls were found to be satisfactory in 14 offices and unsatisfactory in eight offices. This overall profile is similar to what was found in 2003, and the profile of specific practices in

2004 was also similar to the profile found in the previous year. In 2004, the audits found that most offices, even most of those that were rated unsatisfactory overall, had positive practices for planning CAG-supported activities with counterparts and securing timely financial liquidation statements from counterparts after the funds were used. However, the 2004 audits also found that 18 offices received requests from counterparts that were poor in quality, and 18 offices had one or more weaknesses in their disbursement of cash assistance. Sixteen offices did not adequately review liquidation documents and 11 did not monitor the effectiveness of cash assistance implementation by counterparts.

32. A summary report on CAG management practices issued in December 2003 identified the common strengths and weaknesses of country office performance in this area, and presented five recommendations to strengthen UNICEF guidance, development of staff skills and support by regional offices. The five recommendations remain open.

33. **Supply assistance**. Supply assistance was reviewed in 13 field locations where it was a significant component of the programme of cooperation. As in 2003 and prior years, the 2004 audits followed a detailed audit guideline developed in consultation with Supply Division, which supported the systematic assessment of the controls over supply planning, specification development, the identification of suppliers, the contracting process, pre-delivery quality assurance and the receipt of deliveries, and assessing the effectiveness of supply assistance.

34. Fifty-four per cent of the audited offices had a satisfactory rating for supply assistance management in 2004, and 46 per cent were unsatisfactory. The profile of audit ratings in 2004 is similar to the profiles of 2002 and 2003, and indicates that there are continuing weaknesses in some areas of country offices' supply management practices. Eight offices were weak in supply planning, with these offices lacking supply plans and having a high concentration of supply requisitions in the last quarter of the year. Nine offices did not follow recommended procedures over supplier selection, while nine of the 13 offices had weak management practices for defining supply specifications with counterparts and ensuring their requests for supply assistance met expected standards. Seven offices had weaknesses in their field-monitoring practices and three offices were weak in warehouse management.

35. UNICEF has taken actions to address country office supply management, such as staff training sessions for supply planning and issuance of refined guidance on supply planning, in-country logistics and supply monitoring. However, these efforts have not yet led to a significant improvement in the overall profile of the country office supply management practices that are assessed in the audits.

36. **Contracts for services**. Consultancy management practices were audited in three offices in 2004 and all three offices were found to be satisfactory.

Fund-raising and donor reporting

37. Fund-raising and donor reporting was reviewed in 11 offices in 2004, using audit guidelines developed with input from the Programme Funding Office. One office was found to have exemplary management practices, nine offices were satisfactory and one office was unsatisfactory. This overall profile is a substantial improvement over 2003, when 30 per cent of audited offices were unsatisfactory.

Private Sector Division-related operation in offices

38. Developed with PSD in 2003, a new audit guideline was implemented in 2004 to assess field offices' private sector fund-raising and sale of greeting cards and products. The guideline was used in five audits in 2004, and four of the five offices were found to have satisfactory management practices.

39. However, there was scope for improvement in three offices for inventory management, the collection and deposit of funds and year-end accounting and reporting.

Implementation of prior audit recommendations

40. The implementation of prior audit recommendations was reviewed in 18 offices in 2004. Sixteen offices were found generally to have addressed the recommendations made to them in the previous internal audit, although there was scope to strengthen the monitoring of the implementation and to sustain action taken on audit recommendations to prevent recurrence of the same weaknesses. Two offices were found to be unsatisfactory, mainly due to incomplete or no actions in some areas to implement OIA's recommendations.

C. Analysis of audit findings: underlying causes from field offices

41. All audit observations are classified by OIA according to an internationally recognized control framework to establish an understanding of the underlying issues associated with the audit findings. Table 3 below shows that over 90 per cent of the control weaknesses identified in 2004 were due to weak implementation of defined procedures, non-adherence to established procedures, and weak monitoring by office management of the actual functioning of established controls.

Table 3
Major underlying causes for field audit observations in 2004

Reason for weaknesses in risk management practices	*Per cent of total*
Weak monitoring of the actual functioning of established controls	54
Poor quality implementation of defined procedures	22
Failure to follow defined procedures	20

42. The overall share of risks that were due to weak monitoring by office management decreased in 2004 from 70 per cent in 2d003, although it remained the most common underlying cause for observations in such areas as monitoring of programme and operations performance indicators, the quality of annual work plans and implementation of staff training plans.

43. Poor-quality implementation of procedures was the underlying cause for a high number of the risk observations made in 2004 related to financial transaction processing, the functioning of contract review committees and field monitoring practices. Twenty per cent of all risk observations were due to the failure to follow established guidance, largely in such areas as the formulation of project cooperation agreements with NGOs and disbursing and liquidating CAG.

D. Headquarters locations and systems audits

Audit of travel management for headquarters staff

44. An audit of staff travel was completed in 2004, covering PD, the Office of the Executive Director, the Division of Communication (DOC), Supply Division in Copenhagen and PSD in Geneva, and the quality of travel-related administrative services provided by the DFAM Travel Unit, DHR and American Express. Overall, the audit found that the management of duty travel and non-duty travel for staff in UNICEF headquarters divisions and the quality of services provided to UNICEF travellers is satisfactory. However, there are aspects of the travel-related guidance, information systems and specific practices in some divisions that require strengthening.

45. The report was issued in October 2004 with 14 observations and as of 1 April 2005, one of the three divisions to which recommendations had been issued had reported on actions that were completed and presented a plan of additional actions to be taken in the future.

Audit of the administration of contractual arrangements with American Express for travel

46. An audit of the administration of contractual arrangements for travel services with American Express was undertaken in 2004. The audit found that the accountabilities of American Express for providing the lowest fares at the time of ticketing is adequately defined in the contractual arrangements between American Express and UNICEF, that American Express invoices conform to the fares authorized by UNICEF, and that opportunities for savings on ticket prices have been established by DFAM through arrangements with airlines. However, there is scope for improving the assurance that the fares quoted by American Express are the lowest available and for ensuring that UNICEF receives the full value of earned commissions and submitted refunds. The report was issued in December 2004, and by 1 April 2005 DFAM had presented a report of the actions it plans to take to address the recommendations.

Audit of the procurement processes and controls for supplies and consultants in Programme Division, the Division of Communication and the Information Technology Division

47. An audit of the procurement of goods and services by PD, DOC and ITD, and the relevant UNICEF guidance and aspects of the Financial and Logistics System (FLS) used by the Divisions for their procurement actions, was carried out in 2003 and finalized in 2004. The audit found that there is adequate guidance, training and knowledge among budget focal points within each Division for the application of the UNICEF procurement process, that there are satisfactory controls built into FLS, and that the Divisions have established adequate delegation and segregation of financial controls.

48. However, a design weakness in FLS coupled with some weak practices led to the processing of some high- and medium-value procurement actions using the processes established for low-value procurement, avoiding stronger review controls. The audit report was issued in November 2004, and as of 1 April 2005, two Divisions had reported on actions to address the recommendations.

Audit of the financial statements and management practices of the Global Staff Association

49. The audit was undertaken at the request of the Chairperson of the Global Staff Association (GSA) in conformity with the constitution of the GSA, which calls for a biennial audit. The audit found that the statements of receipts and payments fairly presented the GSA's financial position, and that transaction processing and reconciliation practices are transparent and done well. However, there is scope for improvement in the budgeting process, registration of contributions and completeness of reporting to GSA members. The audit report was issued in September 2004 and as of 1 April 2005, three of the five observations had been addressed.

E. Summary audit report

The accuracy and adequacy of country office annual reports

50. The summary report was based on the audit findings from 25 field audits undertaken in 2003, and an assessment of the relevant UNICEF guidance and the support and supervision activities of regional offices. Overall, the summary report established that UNICEF country office annual reports are accurate and that performance statements are adequately substantiated by documentation held in the field offices. Paragraph 61 below notes the actions taken by UNICEF management to address the recommendations in the summary report.

F. Investigation support

51. In 2004, OIA reviewed investigation issues reported by 11 country offices, conducting three investigations itself and providing technical advice for the implementation of locally-managed investigations of minor issues in six offices. OIA's capacity for undertaking investigations was strengthened in late 2004 with the recruitment of a professional investigator with considerable experience in the anti-corruption unit of a regional development bank.

IV. Implementation of audit recommendations by management

52. Audited offices continue to strengthen the timeliness and completeness of their actions to address audit recommendations. In 2004, OIA further improved the system for monitoring auditees' actions and reporting the status of actions to members of the audit committee and regional offices, and senior management has provided strong support to stimulate action from late offices. These actions have all contributed to the positive record of attention to audit recommendations, particularly among field offices.

53. OIA assesses auditees' implementation reports and determines if adequate actions have been taken to close the recommendations. In instances where OIA believes that an auditee's actions have not adequately addressed the reported risks, an analysis statement is sent to the auditee with comments on the gaps in their reported actions and suggestions for additional activity to address the inadequately controlled risks.

54. In most cases, OIA relies on implementation reports from auditees to determine if adequate actions have been taken to close the audit recommendations. These written reports are supplemented by follow-up visits to offices when notably elevated risks were identified in an audit. In 2004, one follow-up audit was conducted. Additionally, country office audits assess the actions an office has taken to address the recommendations made in the previous internal audit and validate the accuracy of the actions that had been reported to OIA. Such reviews were undertaken in 18 audits in 2004 (see para. 40). Based on this finding, OIA concludes that the implementation reports submitted by country offices accurately state the status of the actions they have taken to address audit recommendations.

Country office audits implemented in 2000-2003

55. Virtually 100 per cent of the over 5,000 recommendations from 2000-2003 are reported by the auditees to have been addressed, and their replies have been reviewed by OIA and the recommendations are closed. At 1 April 2005, country offices report that 95 per cent of the recommendations issued in 2003 have been addressed, and they have been closed by OIA.

Country office audits implemented in 2004

56. As of 1 April 2005, of 21 country offices due to report their actions to address recommendations in 2004 audits, 17 had done so. OIA's analysis of the reports determined that adequate controls had been established over 50 per cent of the identified risks. (Prior to 2004, the implementation status was reported to the Executive Board as at 1 July. The Director, OIA will report orally to the Board at the annual session of 2005 on the implementation status realized to the date of the presentation and will compare that to the 82-per-cent closure rate achieved at 1 July 2004 for the 2003 audits.)

Headquarters audits and summary reports issued 2000-2003

57. OIA issued 14 reports of headquarters and regional audits and summary reports in 2000-2003. Six headquarters audits reviewed specific management responsibilities within Supply Division, PSD, ITD and DHR, and three audits of regional offices assessed their programme and operations support to country offices (one focused specifically on supplies). The five summary reports profiled the common weaknesses and positive practices of country offices in the areas of basic programme management, cash assistance management, fund-raising and donor reporting, bank reconciliation practices and staff/office safety and security. As of 1 April 2005, actions reported by the relevant headquarters divisions and regional offices had led to the closure of 80 per cent of the recommendations related to these audits.

58. Since OIA's last annual report to the Executive Board, the Office of Emergency Operations completed actions over the six open recommendations related to the 2002 audit of staff/office safety and security, and the Eastern and Southern Africa Regional Office and the West and Central Africa Regional Office took further actions to address the open recommendations from the 2003 audits of their support to country offices. ITD is working with Supply Division to address two open recommendations associated with the use of FLS in Copenhagen.

59. The 2000 summary report on bank reconciliation practices in country offices included nine recommendations, all of which were accepted. DFAM has reported actions to fully address the weaknesses. The recommendations in the 2002 summary audit report (issued in December) on basic programme management practices related to improvements in UNICEF guidance have been addressed. However, most of the recommendations in that audit to strengthen regional office support to country offices and to strengthen regional and global monitoring remain open. In 2004, PD and the regional offices each completed their first status report but most recommendations remain open on issues that are directly related to continuing weaknesses in country offices' application of UNICEF programming standards. The summary report on CAG issued in December 2003 included five recommendations to relevant headquarters divisions and the regional offices. In 2004, DFAM presented a plan of intended actions, and several regional offices presented individual statements of planned and completed actions. However, the regional offices have not come together as requested to develop a unified approach on how that level of UNICEF administration can support country offices to address commonly occurring weaknesses. The five recommendations were still open as of 1 April 2005.

Headquarters audits and summary reports issued in 2004

60. OIA issued four reports of audits conducted in headquarters locations. The reports on the audits of staff travel in headquarters divisions and the administration of the contractual arrangements with American Express were issued in October and December 2004 respectively. By 1 April 2005, DFAM had presented plans for how the risks identified in the two audits will be addressed. The audit of procurement in headquarters divisions was issued in November 2004, and included recommendations to address specific practices in individual divisions and recommendations for systems and guidance issues that will affect all divisions. By 1 April 2005, DFAM and Supply Division presented their initial plans on how they will address the system and guidance issues. The GSA reported actions that established adequate controls over 60 per cent of the observations made in the 2004 audit of the GSA's financial statements and management practices, and the GSA has presented a plan on how the remaining recommendations will be addressed.

61. A summary audit report on the accuracy and completeness of country office annual reports was issued in November 2004. Three of the four risks identified in the report were addressed by DPP in the guidance issued to country offices for the preparation of the 2004 annual reports and the recommendations are closed. The remaining observation was made to the regional offices related to the review of the 2004 annual reports, but as of 1 April 2005 they had not yet reported on the actions that were taken.

V. Standards of internal control in UNICEF

62. Based on the 29 field audits implemented in 2004, it is OIA's conclusion that overall, UNICEF maintained satisfactory controls at the country level for fund-raising and donor reporting, and generally satisfactory controls with scope for considerable improvement in finance, basic programme management, cash assistance and supply assistance. Concerning headquarters divisions, it is OIA's

conclusion that satisfactory controls exist over the procurement of supplies and consultancy services used by the divisions and for the management of staff travel.

63. The 30 country offices audited in 2003 report that they have established adequate controls over 95 per cent of the risks identified by the audits that year. Of the 29 offices audited in 2004, 21 were due to present status reports by 1 April 2005. They reported that controls had been established over 50 per cent of the risks identified.

Table 4
Summary of risk management ratings by audited area for field offices in 2004

	Offices audited	*Unsatisfactory*	*Satisfactory*	*Exemplary*
Finance	27	15	12	0
Basic programme management	25	12	13	0
Cash assistance	22	8	14	0
Supply assistance	13	6	7	0
Fund-raising and donor reporting	11	1	9	1

64. The record of audit ratings from 2003-2004 shown in table 5 below demonstrates a considerable improvement in the management of fund-raising and donor reporting in 2004 over the previous year, but also indicates that there is a generally stable share of country offices each year that do not meet the full range of the defined management standards of UNICEF in the core areas of finance, programme management and cash and supply assistance. It is OIA's conclusion that significant additional effort is required by management to address this chronic state. As reported in 2004, there remains scope for further advancing the support and supervision from the regional offices to the country offices to accelerate the adoption of positive practices in areas of common weakness, for strengthening the regional monitoring of country offices' practices in areas of programme and operations management that are often weak, and for improving global-level monitoring of regional offices' support activities and global-level awareness of country offices' programme and operations management practices.

65. Audit recommendations to address these issues are presented in the summary audit reports of basic programme management controls (2002) and CAG (2003), but as noted in paragraph 59 most recommendations in these audits remain open. Conversely, actions were taken to address the recommendations in the 2002 summary audit report on fund-raising and donor reporting for which all recommendations are addressed and closed.

Table 5
Summary of unsatisfactory ratings by audited area for field offices in 2003-2004

	2003		*2004*	
	No. of audits	*Per cent unsatisfactory*	*No. of audits*	*Per cent unsatisfactory*
Finance	27	52	27	56
Basic programme management	25	28	25	48
Cash assistance	21	33	22	36
Supply assistance	20	45	13	46
Fund-raising and donor reporting	10	30	11	9

Annex 1

Field audits completed in 2004: risk management ratings and estimated audit staff person-days per audit

Audit	*Per cent and number of audited areas rated unsatisfactory*		*Estimated audit staff person-days*				
			Standard preparation period	*Actual days in the field*	*Standard finalization period*	*Actual editing days*	*Total estimated person-days*
Albania	25	(1 of 4)	5	34	5	7	51
Algeria	33	(1 of 3)	5	28	5	6	44
Bangladesh	60	(3 of 5)	10	69	10	10	99
Benin	60	(3 of 5)	10	36	10	11	67
Bosnia and Herzegovina	33	(1 of 3)	5	28	5	5	43
Botswana	50	(2 of 4)	5	22	5	7	39
Fiji	75	(3 of 4)	5	30	5	4	44
Gulf Area Office	33	(1 of 3)	5	11	5	4	25
India (New Delhi)	50	(1 of 2)	10	66	10	8	94
India (State Office — Jaipur)	0	(0 of 3)	5	22	5	5	37
India (State Office — Lucknow)	33	(1 of 3)	5	20	5	5	35
Indonesia	60	(3 of 5)	10	48	10	10	78
Islamic Republic of Iran	0	(0 of 4)	5	34	5	8	52
Iraq	40	(2 of 5)	10	69	10	7	96
Jordan	0	(0 of 4)	5	28	5	6	44
Libyan Arab Jamahiriya	50	(1 of 2)	5	14	5	9	33
Malawi	50	(3 of 6)	10	54	10	9	83
Mongolia	75	(3 of 4)	5	24	5	4	38
Nigeria	40	(2 of 5)	10	48	10	10	78
Paraguay	25	(1 of 4)	5	14	5	5	29
Philippines	15	(1 of 7)	10	50	10	10	80
Senegal	60	(3 of 5)	10	44	10	10	74
Sierra Leone	50	(3 of 6)	10	50	10	9	79
Somalia	43	(3 of 7)	10	72	10	10	102
Swaziland	50	(2 of 4)	5	28	5	8	46
Syrian Arab Republic	0	(0 of 5)	5	28	5	7	45
Tajikistan	0	(0 of 6)	5	14	5	7	31
Timor-Leste	0	(0 of 1)	5	7	5	3	20
Viet Nam	20	(1 of 5)	10	48	10	6	74

Annex 2

Structure and scale for audit ratings

1. Country office audit reports include *observation ratings*, which are applied to each audit observation to indicate the level of importance of each audit observation; and *risk management ratings*, which are applied to each audited functional area to summarize the quality of the audited office's performance in managing the risks it faces.

Observation risks

2. Each audit observation is rated to highlight the degree of the threat it poses to the achievement of the office's objectives in the audited area. The risk significance ratings are high, medium and low. Low-risk observations are generally presented in a management memo from the audit team leader to the head of the office. Medium- and high-risk observations are issued by the Director, OIA in audit reports. The audit reports also include positive observations, which are issued when all aspects of a particular audited area are found to function fully as expected.

3. The rating for each observation is based on OIA's judgement. As noted in paragraph 17, an exercise in 2003 established that there is general agreement between OIA and UNICEF management on the ratings OIA assigns to observations.

Risk management ratings applied to each audited functional area

4. Each audit report includes risk management ratings that summarize OIA's view of the quality of an office's risk management practices in each of the audited areas. Unsatisfactory ratings do not indicate a supposition of fraud or loss of UNICEF resources. Rather, they indicate that the office's controls over one or more risk to the achievement of its programme and/or procedural and compliance objectives were seriously weak and should be strengthened.

5. OIA uses a three-point scale to rate an office's risk management practices in each audited area:

Exemplary: All controls function as expected and no uncontrolled risks were identified.

Satisfactory: All aspects are generally functioning well; however, one or more medium- (and in some instances high-) level risk was identified that limits the office's potential for achieving the performance and/or compliance objectives of the audited area.

Unsatisfactory: A number of high- or medium-level risks were identified. The frequency and importance of the risks indicate weaknesses in the office's risk-management practices that significantly reduce an office's potential to achieve its performance and/or compliance objectives in the audited area. Priority attention is required by management to establish effective controls.

6. Satisfactory and unsatisfactory risk management ratings are not determined by the specific number of medium- and high-risk observations issued in an audit. However, offices with an elevated number of observations are more likely to receive an unsatisfactory risk rating.